



Interstate Telcom Consulting, Inc.

Independent Telecommunications Consultants

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August 9, 2011

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

**Re: WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135,
WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45,
WC Docket No. 03-109
Notice of *Ex Parte* Presentation**

Dear Ms. Dortch:

On August 8, 2011, Larry Bartels and Richard Donovan of Bernard Telephone Company ("Bernard"), Josh Seidemann of the National Telecommunications Cooperative Association ("NTCA"), and Jerry Burmeister of Interstate Telcom Consulting, Inc. ("ITCI") met with Patrick Halley and Amy Bender of the Wireline Competition Bureau. The subject of discussion was the impact of proposed National Broadband Plan universal service reforms on Bernard operations.¹ Attached is a copy of the presentation which was provided.

Mr. Bartels described the Bernard service territory and the services that are provided to their customers in Northeast Iowa. Highlighted were Bernard's effective deployment of Broadband over DSL and fiber technologies and the importance of quality internet service to the local community. Bernard's customers are requesting Broadband speeds much higher than the 4 Mbps threshold that has been discussed for rural areas.

Mr. Burmeister explained that current universal service and intercarrier compensation support is essential to Bernard's ability to serve its customers, and raised concerns that the Commission's proposed universal service reforms will make it difficult, if not impossible, to continue to invest in the needs of its membership. Bernard committed to a RUS loan based on the expectation that reasonable cost recovery mechanisms would be in

¹ In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, and Lifeline and Link-Up, WC Dockets No. 10-90 et al., FCC 11-13 (rel. Feb. 9, 2011); 76 Fed. Reg. 11632-11663 (2011).

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place. The anticipated 38 percent reduction in universal support based on proposed reforms would jeopardize Bernard's ability to meet its loan commitments and to continue to provide its telecommunications and broadband services.

Please contact the undersigned with any questions.

Respectfully submitted,

/s/ Jerry Burmeister

Jerry Burmeister
Consulting Manager
on behalf of
Bernard Telephone Company

cc: Patrick Halley
Amy Bender

Attachment



Bernard, Iowa

FCC Ex Parte Meeting

August 8, 2011

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Services:

- Local Service - Landline
- Long Distance
- Cellular Services
- Broadband
- Wireless Internet
- Video (IPTV)

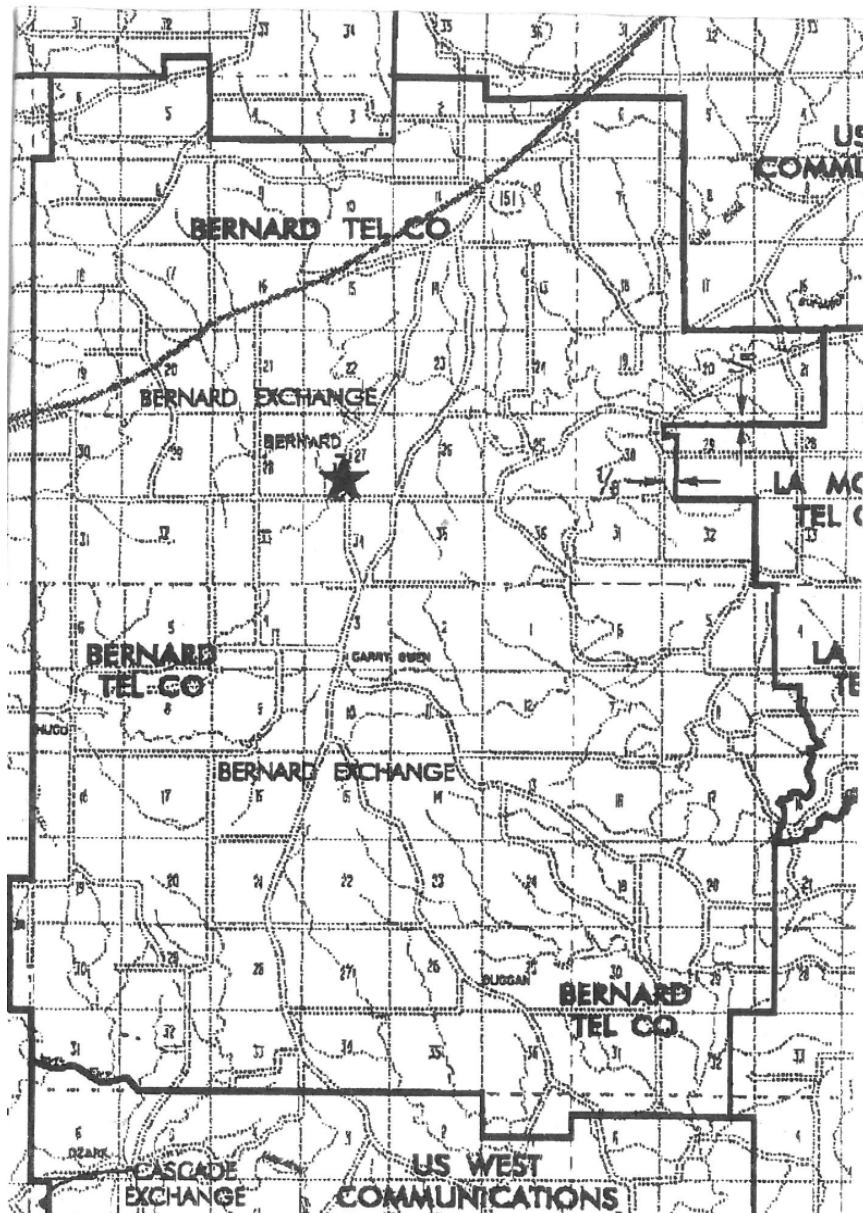




- 468 Access Lines
- 94.5 Square Miles Covered
- Customer Density by Square Mile – 4.97
- Customer Density by Route Mile – 1.57
- 1 Exchange
- Employees
 - 5 full time
 - 1 part time



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Recent RUS Loan

- Bernard Telephone Company recently received a \$3.6 million loan from RUS to replace aged and deteriorating copper plant with fiber.
- The loan was acquired with the expectation that reasonable cost recover mechanisms would be in place to aid with the high cost of operating in the areas that Bernard Telephone serves.
- Based on the current cost recovery mechanisms, Bernard Telephone Company will be able to satisfy RUS tier requirements.
- If NPRM proposals are adopted, Bernard Telephone Company would consistently fail the RUS tier requirements.



Bernard Telephone Company

Projected USF Support

Under Current Cost Recovery Mechanisms

	<u>2011</u>	<u>2012</u>	<u>2013</u>
High Cost Loop	REDACTED	REDACTED	REDACTED
Local Switching Support	REDACTED	REDACTED	REDACTED
ICLS	REDACTED	REDACTED	REDACTED
Safety Net	REDACTED	REDACTED	REDACTED
Total	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Increase Over Current		REDACTED	REDACTED

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Bernard Telephone Company

Projected Income Statement

Under Current Cost Recovery Mechanisms

	<u>2010 Actual</u>	<u>Interest Expense</u>	<u>Depreciation Expense</u>	<u>Revenue Increase</u>	<u>Projected 2013</u>
Operating Revenues	REDACTED			REDACTED	REDACTED
Operating Expenses	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Operating Income	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Other Income	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Earnings Before Taxes	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Income Taxes (27.4%)	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Net Income	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

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Bernard Telephone Company

SAC ID: 351110

NPRM Proposed Changes - Using 2011 Information

High Cost Loop Fund Changes:

Current HCL Support*

Reduction due to algorithm change (stand alone) REDACTED

Reduction due to elimination of Corp. Exp. (stand alone) REDACTED

Combined effect (run together)

Increase due to resizing of NACPL (assumed NACPL reduction of REDACTED)

Revised HCLF Support

REDACTED

REDACTED

REDACTED

REDACTED

FCC proposes to eliminate (or reduce) support for corporate expenses in all funding mechanisms.

FCC proposes to reduce the reimbursement percentages for high-cost loop support from the current percentages of 65% for qualifying study area loop costs between 115 - 150% and 75% for qualifying study area loop costs in excess of 150% to 55% and 65%, respectively

Local Switching Support Changes:

Current LSS

Reduction due to elimination of Corp. Exp.

Revised LSS Support

REDACTED

REDACTED

REDACTED

The FCC seeks to eliminate local switching support, or combine this program with high-cost loop support. Alternately, the FCC would combine the LSS program into the HCLF program - creating a LHCS hybrid, using an algorithm similar to HCLF.

Interstate Common Line Support Changes:

Current ICLS

Reduction due to elimination of Corp. Exp.

Revised ICLS Support

REDACTED

REDACTED

REDACTED

Safety Net Additive:

Current Safety Net Support

Reduction due to elimination of Safety Net

Revised Safety Net

REDACTED

REDACTED

REDACTED

The FCC seeks to eliminate safety net additive support immediately, or implement a phase-down over possibly three years.

	Original	Revised	Impact	% Change
HCLF	REDACTED	REDACTED	REDACTED	REDACTED
LSS	REDACTED	REDACTED	REDACTED	REDACTED
ICLS	REDACTED	REDACTED	REDACTED	REDACTED
Safety Net	REDACTED	REDACTED	REDACTED	REDACTED
Totals	REDACTED	REDACTED	REDACTED	REDACTED
Loops	REDACTED	REDACTED	REDACTED	REDACTED
USF/Loop/Year	REDACTED	REDACTED	REDACTED	REDACTED

* 2011-1 NACPL of REDACTED

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Projected USF Support

Under the NPRM

	<u>2011</u>	<u>2012</u>	<u>2013</u>
High Cost Loop	REDACTED	REDACTED	REDACTED
Local Switching Support	REDACTED	REDACTED	REDACTED
ICLS	REDACTED	REDACTED	REDACTED
Safety Net	REDACTED	REDACTED	REDACTED
Total	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
NPRM Impact - 38.05% Reduction	REDACTED	REDACTED	REDACTED
Total USF Under NPRM	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Increase (Decrease) Over Current		REDACTED	REDACTED

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Projected Income Statement

Under the NPRM

	<u>2010 Actual</u>	<u>Interest Expense</u>	<u>Depreciation Expense</u>	<u>Revenue Increase</u>	<u>Projected 2013</u>
Operating Revenues	REDACTED			REDACTED	REDACTED
Operating Expenses	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>	<u>REDACTED</u>
Operating Income	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Other Income	<u>REDACTED</u>				<u>REDACTED</u>
Earnings Before Taxes	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Income Taxes (27.4%)	<u>REDACTED</u>				<u>REDACTED</u>
Net Income	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

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NPRM would significantly reduce amount of USF the Company receives

- As demonstrated in the impact statement, the near-term proposals in the FCC's Notice of Proposed Rulemaking on universal Service reform would reduce the amount of universal service support that the company receives more than 38 percent, a significant reduction for Bernard Telephone Company.
- Without the cost recovery support currently in place, it will be very difficult, if not impossible, for Bernard Telephone Company to continue to invest in the future needs of its customers.



Thank you

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